



The Impact of Reducing PIP Coverage in Michigan

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Committee
October 6, 2011

Purpose

- **To analyze the potential impact of limiting the amount of coverage required for personal protection insurance (PIP)**
 - Benefits associated with PIP
 - Cost burden associated with catastrophic motor vehicle-related injuries, specifically traumatic brain injury
 - Who pays and how might the cost burden shift to the state and other payers

Reasonably Necessary Products, Services, and Accommodations

- Enables victims to immediately obtain health care and services they need for maximum recovery
 - Directs resources to necessary care and treatment through first-party insurance
 - Provides comprehensive benefits for minor to catastrophic injuries and lifetime payment
 - Covers all “reasonable charges incurred”
 - Burden of proof rests with the injured individual and the provider

Risk Protection

- All covered individuals are protected against the risk of catastrophic economic loss
 - One out of 17 claims exceed \$50,000 and one out of 200 exceed \$400,000 *
 - Reducing coverage levels would transfer the risk back to the individual

*Source: Michael J. Miller, *Private Passenger Automobile Analysis of No-Fault Legislative Reforms in Michigan*, conducted on behalf of the Insurance Institute of Michigan (Lansing, Mich.: EPIC Consulting LLC, June 2007).

Michigan Catastrophic Claims Association Data

- From 1978 through June 2010, MCCA reimbursed 11,291 initial claims for a total of \$8,027,586,000
— an average of \$710,972 per claim
- Auto insurance companies covered \$250,000 to \$450,000 before the claim reached the MCCA, bringing the *average* claim to about \$1 million
- This cost is on top of expenses covered by other payers

Who Pays Now?

- The costs associated with motor-vehicle related injuries are borne directly by the population at risk—those who own and operate automobiles—in the form of insurance premiums for protection against such losses.
- For this protection, Michigan drivers spend only \$23 more per year than the national average for liability coverage.

Cost to Victims and Families

- People are unlikely to purchase necessary risk protection if they are required to “opt in.”
- Following repeal of Colorado’s no-fault legislation, more than half of the policyholders who chose to voluntarily purchase personal protection insurance purchased coverage of \$5,000 or less* —which would not even cover the average cost of one day in a hospital.

*Source: Insurance Research Council, *Impact of Colorado No-Fault Insurance Repeal Documented In New IRC Report*, March 7, 2008.

Cost to Victims and Families

- Without adequate personal protection insurance, the cost burden is devastating for victims and their families.

When treatment is delayed or denied altogether, individuals with brain injury cannot return to work or school. Often, they lose their jobs, their insurance, and their homes. The burden of care falls to families until they become destitute and then shifts to welfare systems.

Brain Injury Association of America

Colorado Uncompensated Care

- Auto-related injury patients made up 2.9% of all patients coded as self-pay and charity care in 2002 and 3.4% in 2006.
- Non-reimbursed charges were 18% of motor vehicle accident-related emergency transport charges in 2002 and rose to 37% in 2006
- Reimbursement rate for inpatient care for auto-related injuries was 60% of charges in 2002 and only 36% of charges in 2006

Conclusions

- No compelling reason to reduce the coverage requirement for personal protection insurance under Michigan's no-fault system at a time when the health care policy environment is changing so dramatically
- Current coverage enables victims of motor vehicle accidents to immediately obtain reasonably necessary products, services, and accommodations they need for maximum recovery
- Without adequate PIP, costs will be shifted to the victims and their families, publicly-funded programs, and health care providers in the form of uncompensated care
- Cost burden on the Michigan Medicaid program could easily exceed \$30 million for long-term care in one year alone